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INFLUENCES OF FINANCIAL LITERACY ON INVESTMENT DECISION IN SMALL BUSINESS IN SOUTHEAST SULAWESI

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Abstract— Investment significantly influences on economic activities and growth in general. Thus, investment decision has specific interest not only for policy makers, but also company managers and owners. This research aims to determine and analyze the influences of Financial Literacy on Investment decisions by Small Business in Southeast Sulawesi. The data is analyzed using partial last square method with 395 Small Business in Southeast Sulawesi as the respondents. Results of the analysis show that Financial Literacy influences on Investment decisions by Small Business in Southeast Sulawesi. It means that if the by Small Business actors in Southeast Sulawesi have more ability in Financial Literacy then they will be better in the investment decisions. Higher Financial Literacy will lead to by Small Business actors in Southeast Sulawesi to have investment that can provide more optimal profits and prevent any risks. Higher level of Financial Literacy will lead to higher tolerance on investment decision risks before making decision.

Index Terms—Financial Literacy, Investment decisions, Small Business

1 Introduction

Effective investment behavior for company performance and growth plays an important role in creating high attractiveness for researchers to conduct researches. There are some researches showing more important financial factors related to investment process for small companies. This is caused by small company has limited access to capital, small company more relies on intern funds, such as private savings or loan debts from relatives or friends. On another side, big companies have better access for extern funding, (collateral, credit and others) and for investment assessment, it is used more formal method such as capital budgeting

The making investment decision process has the same meaning for future development both for big companies, small and medium companies. This is meant that making investment decision process is the same for all types of business. However, based on elaboration and considering differences in various performance segments, different company sizes and research analysis show specific differences. Gveroski and Risteska Jankuloska, (2017) expressed that there are two characteristics as the main differences in investment decision making between big, small and medium business in the company operation, first, it is about opportunity to provide required financial sources for implementation of investment project and second, it is about the implementation method of managerial function in big, small and medium companies.

Development of empirical literature explains determinants of company's investment from a technical point of view and investment characteristic perspectives. Theoretically, it can identify renewal of obsolescence assets, acquisition of additional assets to expand business and increase outputs, as well as innovation to reduce costs and / or create novelty of value as the main motive of investment (Levy & Sarnat, 1994). In its practice, investment decisions are often a combination of these three factors as complementary, although some may have priority.

Mendes et al (2014) argued that corporate investment theory can be divided into two main groups, namely: theory considering that investment depends more on external conditions in which the company operates, and theory considering that investment depends more on company internal conditions. The first group shows a positive relationship between demand and investment in the future (Keynes, 1936) on another hand, and other sides of sales and investment. The sales factor is found as a determinant to encourage investment in small and medium-sized enterprises (SMEs) when they have a high level of investment. Furthermore Carpenter and Guariglia (2008) found a positive relationship between growth and investment opportunities. Business growth opportunities serves as a way out of financial difficulties. Regarding macroeconomic conditions, SMEs are more vulnerable to economic climate fluctuations (Chenery, 1952) which mean that companies take advantage of favorable conditions by increasing their investment.

There are many entrepreneurs considering investment as an interesting issue since they can participate in decision making process and determine their chosen results. But not all investments will be profitable, because investors will not always take proper investment decisions. It is necessary to consider positive results on advertised portfolio investment (Bodie et al 2007).

According to Baker and Nofsinger (2010) the most complex response in investment today is creating interventions in Financial Literacy as a clear and general response to increasing complexity in the financial field. There are many social policy domains that are used to correct social problems (Monticone, 2010), in which Financial Literacy is most often seen as a specialized science related to how a person manages finances. According to Nye, et al (2013) "Financial Literacy is a degree measure to which a person understands the main concepts of finance and has the ability and confidence to manage personal finances through any shot-term right decisions, long-term financial planning, as well as evaluate any life events and changes in economic conditions."

In 2013, there was only 57.28% of Indonesian people who understood the financial literacy. On the other hand, there was 21.80% of people using financial sector services range (Bisnis, 2014). according to the Deputy Directorate of Literacy and Education OJK, there is around around 50% of Indonesian population who understand financial products such as banking, insurance, and capital market instruments. Based on the survey conducted by users of financial products and services, uers of banking institutions reached 75.98%, insurance by 13.17%, financing by 5.30%, pawnshops by 4.18%, pension funds by 1.26%, and capital market reached 0.10 % (Palopo Pos, 2015). On another aspect, investment in small enterprises (SE) in Southeast Sulawesi Province areas tends to be unstable, it is more clearly shown in the following table:

Table 1.1. Development of Number of Small Enterprises (SE) Investment in Southeast Sulawesi Province

Years	Investmet (Rp)
2010	1.212.925.248.000,-
2011	1.197.100.148.000,-
2012	1.279.775.841.000,-
2013	1.413.670.317.000,-
2014	1.373.246.496.000,-

Source: Sultra in figures, 2017.

Table 1.1 above shows that in 2010 the investment value was Rp 1,212,925,248,000, - then decreased in 2011 to 1,197,100,148,000 - in 2012 and in 2013, it increased to 1,413,670,317,000, - but it decreased again in 2014. This means that the performance of small industry businesses has decreased. The consequence is business continuity.

Testing the influence of Financial Literacy on Investment decisions was conducted by Al-Tamimi and Al Anood Bin Kalli (2009), Selim Arena, and Sibel Dinç Aydemir (2015), Kashif Arif (2015) and Hawati Janor, et al (2016). Testing the influence of Investment Experience on Investment Decisions was conducted by Ruey-Dang Chang & Jo-Ting Wei (2010) with the research results showing that more experienced individual investors have better ability to combine governance strength in their assessment than any less experienced individual investors. Therefore, this study wants to re-examine the Financial Literacy Influences on Investment Decision in Small Businesses.

2 Literature Review

There is one study often used as a reference to answer reasons for the company's existence, namely Coase's thinking results. Coase (1937) posed an economic explanation, why individuals group in an entity is called as a company. In neoclassical economics, the economy is considered to have ability to work by itself and require no control to control the market system. All problems can be solved by the market formula: Leave it to the market system, it will finish naturally. This means that, if the price of commodity A in market X is higher than in market Y, then demand for commodity A will shift from market X to market Y. So that, this price difference problem can be solved perfectly by the market system. When the price difference problem can be solved by the market mechanism, then why is the company still needed? This question etymologically questions the validity of market approach in solving all resource allocation problems.

2.1. Company Theory and Competence Theory (Penrose, 1959)

Philosophy about a company leads to two questions (Hodgson, 1998). The first question concerns the company existence; "Why is there a company?", This question relates to profit maximization. The answer to the first question leads to four corporate theories: hierarchy and coordination theory; transaction cost theory; agency theory; contract theory and competency theory. The second question relates to the management's responsibility in running a company: "Who is the company for?", the answer to the second question leads shareholder theory, stakeholder theory and enlightened stakeholder theory.

Competency Theory (Penrose, 1959) is considered as one of the founders of competence school. There are several points in Penrose's thinking. First, according to Penrose (1959), companies are able to create economic value and not only have resources, but are also able to manage resources effectively and innovatively. Penrose divided resources into productive resources and productive services. Productive resources explain resources in a general sense, while productive services are related to managerial ability to manage other resources.

Second, Penrose (1959) described the ability of an organization to manage its resources uniquely. Meaning, two organizations with the same resources do not necessarily produce the same output. The way and condition to develop the resources will greatly determine the results of these resources management. Third, Penrose gave attention to the level of progress and direction of resource management development. The development level and direction of a company's resource management has unique characteristics. In this case, Penrose made a connection between resource ownership and organizational performance. Penrose underlined that resources and organizational performance ownership is not universal, but unique, and different for each organization.

Broadly speaking, Penrose emphasized heterogeneity factor in each organization. This diversity is influenced by many factors. These factors include tangible ownership of resources, such as finance, infrastructure, and other factors, and intangible factors, such as ability of human resources, and experience.

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2.2 Financial Literacy

Financial literacy was first proposed by the Jump$tart Coalition in 1997 as "the ability to use knowledge and skills to effectively manage personal financial resources for lifelong financial security". However, financial literacy has several meanings. The President's Advisory Council on Financial Literacy defines financial literacy as "the ability to use knowledge and skills to effectively manage financial resources for lifelong financial welfare" (The President's Advisory Council on Financial Literacy, 2008). Remund (2010) defined financial literacy as "a measure to which a person understands the key to financial concepts and has the ability and confidence to properly manage personal finances, short-term decision making, long-term financial planning, pay attention to any life events and changing economic conditions. According to Lusardi (2008) financial literacy is "knowledge of basic financial concepts, such as the working of interest compounding, the difference between nominal and real values and the basic of the risk diversification." From this definition, it can be concluded that financial literacy is knowledge regarding basic financial concepts, including knowledge of compound interest, differences in nominal value and real value, basic knowledge of risk diversification, time value of money and others.

2.3 Company Investment Theory

Mendes et al (2014) suggested that firm investment theories can be divided into two main groups: first, the theory considering that investment depends more on external conditions in which the company operates, and the theory considering that investment depends more on company internal conditions. Second, the theory that explains corporate investment largely focuses on the company's internal conditions, such as internal finance, liquidity, cash flow, and leverage. Positive investment is influenced by internal and external finance (Keynes, 1936), liquidity (Kuh, 1963), and cash flow (Fazzari et al., 1988), balance sheet and debt (Vermeulen, 2002).

Managers are more likely to use internal funds to finance investments, because management of this type of financing is more flexible than external finance (Baumol, 1967). In addition, company owners / managers are usually has better information than creditors about the specific characteristics of their company. This is very important because it can cause restrictions on lending and, as a result, companies reduce investment.

The investor's decision to invest is subjective. The decision depends on the expected costs, knowledge of improvement techniques and risk perception, which are entirely subjective factors. Employers want to know the pay-off period of an investment project to decide whether they really will make investment spending or not. (Harcourt et al., 1967) For a good investment decision, it is necessary for investors to fully and correctly understand the probability and this decision should not be rushed. Incorrect investment decisions can cause company bankruptcy. It is necessary to understand the basic ideas of the investment decision to obtain maximum value of assessment process. In evaluating an investment, decision makers must have good understanding on indicators regarding the specific nature of the project and accurate information (decision maker).

2.4 Small Enterprises

Small Enterprises (SE) is one o fthe important aspects of a country economy. This important role has encouraged many countries including Indonesia to keep developing small enterprises. The small enterprises has complementary role to large companies in creating job opportunity as well as economic growth. (Tambunan, 2000) has observed SME development in Indonesia and confirmed that SME has some important roles in Indonesia, namely: (1). SME is the main actors in Indonesian economic activities, (2). Providing job opportunity, (3). Playing important role in developing local economy and public development, (4). Creating market and innovation through flexibility and sensitivity as well as dynamic correlation among company activities, (5) contributing on non oil and gas export increase. Meanwhile, Tambunan (2001) mentioned that SME also has ability for reducing income inequality mainly in developing countries. Small business and household business in Indonesia play an important role in absorbing labors, increasing number of business units and supporting household income.

In the context of regional economic development, Small Enterprises (SE) has important position since by Small Enterprises (SE), local governments can find and develop superior products taken from unique local resources and if it is developed properly, then it will produce products with competitive advantage.

Small enterprises classification criteria (SE) have faced various variations in the economic currency sector. At the international level, there is a different classification between one country and others. Small Enterprises according to Law Number 20 of 2008 are independent productive economic activities carried out by individuals or business entities that are not company subsidiaries that are owned, controlled or directly or indirectly part of medium or large enterprises that have:

a. Net Assets (excluding land & buildings) More than Rp. 50,000,000,000 (Five million rupiah) million up to a maximum of Rp. 500,000,000 (five hundred million rupiah).
b. Annual Sales Results (turnover / year) More than Rp. 300,000,000 (three hundred million rupiah) up to a maximum of Rp. 2,500,000,000 (two billion five hundred thousand rupiah)

The Central Statistics Agency defines Micro Enterprises as a business with more than 4 people as its labors. Whereas the Small Enterprises as referred to in the Law No. 9 of 1995 is a small-scale productive business and meets the criteria of net assets by a maximum of IDR200,000,000.00 (two hundred million rupiahs) not including land and business building or having maximum sales proceeds by IDR1,000,000,000.00 (one billion rupiahs) per year and can receive credit from banks maximally by IDR50,000,000 (fifty million rupiah) up to IDR 500,000,000 (five hundred million rupiahs)) The World Bank defines Small Enterprises with criteria: The number of employees is less than 30 people; Annual income is not more than $ 3 million; The total assets is not more than $ 3 million.

3 Methodology

Population of this study is all small enterprises in Southeast Sulawesi Province which have legal entity and registered in the Ministry of Cooperatives and SMEs of Southeast Sulawesi Province, namely there are 24,526 units. The sampling technique used is Systematic Sampling. The systematic samples are samples obtained from a list of all units in the population according to a predetermined systematic retrieval pattern. In addition, researchers also use non-probability sampling, which is a sampling technique by giving different opportunities for each element or member of the population to be selected as a sample. The reason for the researchers to use non-probability sampling is to limit small enterprises only to those who obtain guidance from financial institutions / SOEs in order to receive assistance both grants and revolving funds, so that not all small enterprises in the region have equal opportunities. The non-probability sampling as the sampling technique used by the researchers is quota sampling and purposive sampling. Quota sampling is a technique for determining samples of a population by certain characteristics until it reaches the desired quota amount. Purposive sampling is a technique for determining samples by certain considerations. The reason researchers used purposive sampling is that not all small business populations have access to finance so that the researchers limit only to small enterprises having access to finance as the samples, namely there are 395 business units.

The data analysis method used in this study is structural model analysis with the assistance of smart PLS software. The analytical method used is descriptive statistical analysis used to provide an overview of the relationship between latent variables and indicators. Hypothesis testing the in this study will be analyzed by path analysis.

4. Results and Discussion

Based on the research results, the direct effect testing and research hypothesis aim to answer whether the proposed hypothesis can be accepted or rejected. Results of the direct effect testing and research hypothesis can be explained as follows:

Table 1 Path Coefficient of Direct Effect and Hypothesis Testing

Hypothesis	Direct effect	Path coefficient	t statistics	P value	Empirical evidence	
H1	Financial literacy --→ Investment decision	0,325	3,147	0,002	Significant	Accepted

Based on Table 1, hypothesis testing on (H) Financial Literacy influences on Investment decisions, it is evidenced by a statistical test showing original sample estimate by 0.325. This result is supported by a significant level of p-value 0.002 (p <a = 0.05). This indicates that improved Financial Literacy influences on the Investment decisions so that the first hypothesis submitted is accepted.

The hypothesis proposed is that Financial Literacy influences on the investment decisions of small enterprises in Southeast Sulawesi. Testing on the hypothesis 1 (H1) is evidenced by a statistical test showing original sample estimate by 0.325 and is supported by a significant level of p-value of 0.002 (p <a = 0.05). This indicates that improved Financial Literacy influences on the Investment decisions so that the first hypothesis submitted is accepted.

Based on the analysis results with PLS, it is known that the largest indicator in reflecting the financial literacy based on the outer loading values is sequentially explained: that the 1 and 3 statements are the most important things in reflecting the financial literacy of small enterprises in Southeast Sulawesi. The business actors often include the income and expenses records but they do not include all income and expense records, and how often during the past year, did the small business manager run out of money from his previous income until there is a new income (money).

Related to the average assessment on the financial literacy, indicator of the 2nd statement has the highest average, namely the question: If you (your family) have money left before the next income, what you usually do with it, with the highest value by the respondents (small enterprises). Related to the loading factor, it can describe that the 2nd statement is an indicator with the smallest contribution but with the highest value. This means that some small enterprises actors in Southeast Sulawesi consider that the future income is a certain issue, but the duration between future income and current income is not definite so there are various options to anticipate, including: investing, saving and not withdrawing from a business account , cash savings, Shefrin (2000) defined behavioral finance as a study to learn how psychological phenomena influences on behavior of investors in their financial decisions. According to the concept of behavioral finance, behavior of investors and managers in decision making is not as rational as imagined in conventional financial theory. Investors are like humans in general, often show systematic (irrational) psychological biases as indicated by anomalies in decision making.

The second empirical phenomena shows item 6 about Compounding interest with the question: suppose you have Rp. 10.000, 000.00 in your bank account and there is 20% of interest rate per year and you never withdraw the money or pay the interest. Then after a year, how much interest will you get from your overall account? Respondent answers has the lowest mean by 3,30 but the outer loading value by 0,752. The explanation relates to the mean respondent assessment that compounding interest is the indicator with the biggest contribution to the investment decisions but respondents still give low value compared with the assessmet on other financial literacy indicators. This also shows that phenomena of Compounding interest is the strongest indicators to reflect the investment decision but in fact the Compounding interest yet pose full understanding on the finance (illiteracy).

Testing results of outer model is found out that all basic literacy and advance literacy indicators reflect positively and significantly financial literacy measurement. It is proven by outer loading value more than 0.50 and significance confidence level by 95%. This result reflects that there is valid indicator correlation to be used in reflecting investment decisions. The findings of this study support a research by Lubis et al., (2013) stating that investment decisions by investors are based on their personal factors, one of which is literacy. This finding also supports a research by Musundi (2014) by his research

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conclusion stating: "The findings on how financial literacy has an effect on investment decision making by real estate investors shows that percentage of investors considers financial concepts such as returns, investment risks, investment management portfolio and trends in interest rates at a great extent.

The findings of this study are different from a research by Al-Tamimi and Kalli (2009) which their research hypothesis stated "There is a positive significant relationship between financial literacy and investment decisions of UAE-national inventors," is rejected. "Results of the research by Al-Tamimi and Kalli (2009) showed significant negative influences of financial literacy on investment decisions of UAE-national inventors. But Kashif Arif (2015) argues that there is a significant negative influence of financial literacy on investment factors. Kashif Arif (2015) in his research concluded that; "We also found that there is a significant negative financial impact on the sum of investment factors at 90% significance level. The possible justification of findings that are at different levels of financial literacy investors do not depend on a particular group of factors and make decisions based on different factors from different groups of factors. The most influencing factors are Condition of financial statements, Firm status in industry."

Investment decisions are based on personal factors of a business actor, one of which is education as stated by Lubis et al. (2013) namely Education is a factor in considering investment decisions. Higher education level will lead to more business understanding in choosing and determining investments that can provide optimal returns and avoid risks. Higher level of education influences on higher tolerance for risk. Christanti and Mahastanti (2011) said investment decisions of an educated investor (havig undergraduate degree) can consider many factors related to investment activities before making a decision.

The facts reveal that most respondents have high school education background, reaching 306 people or 77.46%. While there are 17 respondents with primary school education or 4.30%, there are 35 people with junior high school education or 8.86%, and there are 37 people with stratum 1 degree or 9.38%, this number indicates the low level of education among small enterprises actors (SE) in Southeast Sulawesi, this is a challenge for both the government and stakeholders so that it should give solution by empowering and educating Small Enterprises (SE) so that there will be increased knowledge on finance in an appropriate manner to their business and allows them to use this knowledge to evaluate their products and make the right decision. This is also revealed by Hawati Janor, et al (2016) in her study conclusion stating: "On FL, overall it can be concluded that FL levels are low and necessary measures should be taken by the government to increase awareness about financial related matters. On the review of this literature, the financial literacy to investment decisions, it is concluded that, generally, the relations with investors' behavior are highly influential relative to some other factors. These factors can be grouped into demographic, economic, social, and psychological in nature. The literature reviews uncovers some common themes for developed countries namely; the impact, demographic factors, sources of knowledge, methodology and program effectiveness. For Malaysia, the review reveals the gaps in the literature including investment types, risk tolerance, sources of knowledge, data, measurement and method. "The study provides guidelines for policy makers, administrators and educators in an appropriate place for training in endeavors." It is expected that this will be able to balance and increase knowledge, especially in the financial field. Because it is undeniable that by education and knowledge (both formal and non-formal) small business actors can more literally decide which investment decision will be chosen because it involves risk and return.

It is also in line with research results by Selim Arena and Aydemir. (2015) stating: “Education predominantly has a role on people’s bond preferences. While education level of individuals increases, the likelihood of choosing this product by individuals also increases. Additionally, higher risk demand (i.e., risk criterion) partly has an impact on this product choice. Due to the the case of bonds having negative real returns in the past inflationary periods in Turkey, individuals who perceive the investment risk as the likelihood of losing may consider this product as risky investment alternative. Besides, only high-educated people prefer this instrument more since the lay people are not so familiar with it and they don’t find it easy to grasp”.

Literacy relates to education, as research result by Fachrudin K.R., Fachrudin K.A (2016) stated that: “Education significantly influences financial literacy.” So that it can be seen that education level both formal and non formal can improve literacy. But, Fachrudin K.R., Fachrudin K.A (2016) posed four hypotheses, one of which stated: ”There is a significant influence of education on investing decisions. Research results on hypotheses by Fachrudin K.R., Fachrudin K.A (2016) are: “Education does not significantly influence the investment decisions toward a positive relation. This proves that the hypothesis is rejected, and explained that educational factors do not affect the investment decisions investor directly. Then the conclusion of the research by Fachrudin K.R., Fachrudin K.A (2016) is: “Experience in the trading stocks is not always improving financial literacy. It is understandable that investors routinely make trades without financial get the knowledge that many of these activities. Financial literacy significantly influences investment decisions toward a positive relationship.”

5. Conclusion and Recomemendation

Overall, these research results indicate that Financial Literacy influences on the investment decisions by small enterprises in Southeast Sulawesi, meaning that more number of business actors in Southeast Sulawesi having financial literacy leads to investment decisions. Higher level of Financial Literacy leads to more understanding by Small enterprises actors in Southeast Sulawesi in choosing investments that can provide optimal returns and avoid risks. There is already proper Financial Literacy by the small enterprises in Southeast Sulawesi namely at making investment decisions, understanding choosing investments to provide optimal returns, therefore this study recommends that it is necessary for relevant agencies both government and academics to increasingly provide support so that Small enterprises in Southeast Sulawesi are able to maintain its sustainability.

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